Our View on Currencies

Edition March 2022

Our View on Currencies - Overview

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Our View on **EUR/USD**

1.12 - 1.17
Expected range
for 3 to 6 months

- Tailwind for EUR due to the ECB's monetary policy exchange rate
- The euro is undervalued from a purchasing power perspective
- high US twin deficit is a burden on the US dollar

- Interest rate hikes despite falling inflation rates, raise real interest rates and support the USD
- Geopolitical uncertainties lead to flight to safety

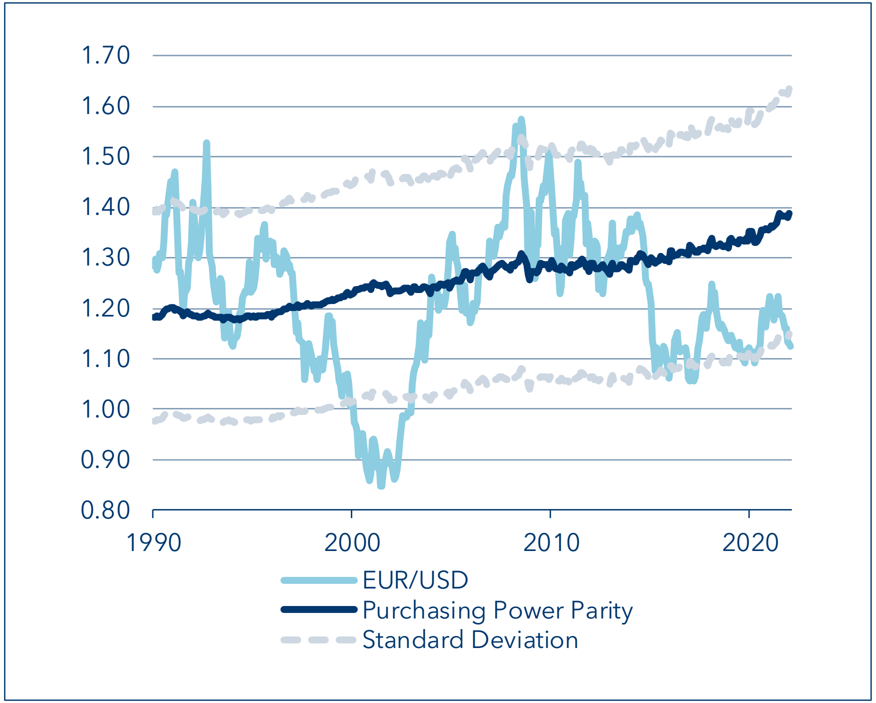
The ECB, the Euro, and the potential to surprise

The inflation momentum did not weaken in the eurozone in January as expected. Within the ECB, nervousness is therefore growing. The central bank will discuss further measures on the basis of the March projections, according to ECB president Christine Lagarde. Talking only about inflation risks, without taking any action, is no longer enough. If inflation projections are raised in March, which is expected to happen, Lagarde will push for a faster end to asset purchases. In that case, an earlier rate hike could follow. But first, an early end to asset purchases is on the agenda. The monetary-policy shift initially boosted the euro, but the war in Ukraine led to a flight into the dollar. The USD could remain well supported for the time being, but geopolitics should take a back seat again in the coming months, which will give room for euro exchange rate gains.

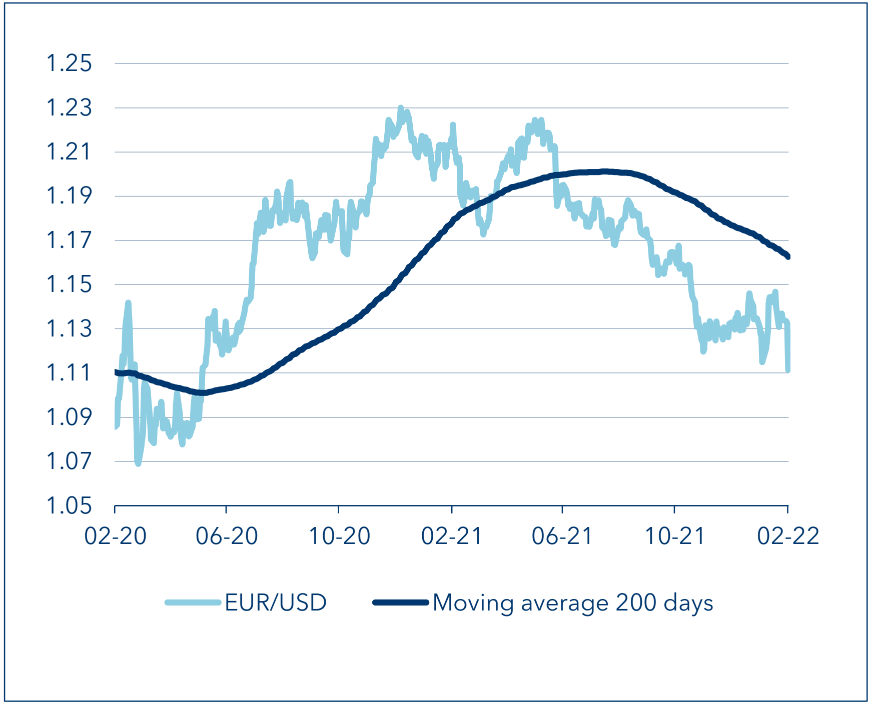
Our View on **EUR/USD**

1.12 - 1.17
Expected range
for 3 to 6 months

Purchasing power parity (producer prices)



Technical view



Our View on **EUR/CHF**

1.04 - 1.10
Expected range
for 3 to 6 months

- The euro could benefit even more from the ECB's change of course
- SNB sticks to negative interest rates for longer
- Technically, higher levels of EUR/CHF are supported

- The SNB could raise key interest rates in the second half of the year and trigger CHF strength
- The franc is hardly overvalued anymore
- Swiss real interest rates are higher than in the euro area, which speaks for the CHF

ECB moves and helps the euro

The prospect of a monetary policy turnaround by the ECB gave the euro a brief boost, but Russia's attack on Ukraine ultimately strengthened the franc again. The question now is whether it will be enough for the euro to make further gains in view of the geopolitical risks. The financial markets are likely to lie in wait for the next ECB meeting in March. Then, the central bank is likely to announce a tapering of its securities purchases (APP). This in itself would argue for gains for the euro, but the geopolitical risks are supporting the franc. And another thing should be taken into account: If the ECB moves, the Swiss National Bank (SNB) can also move. Moreover, from a purchasing power parity perspective based on producer prices, the franc is by no means overvalued against the euro anymore. However, should the euro strengthen against the dollar, which we think will happen, this will have an impact on EUR/CHF. In this case, the Euro could also gain against the franc.

Our View on **EUR/CHF**

1.04 - 1.10
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for 3 to 6 months

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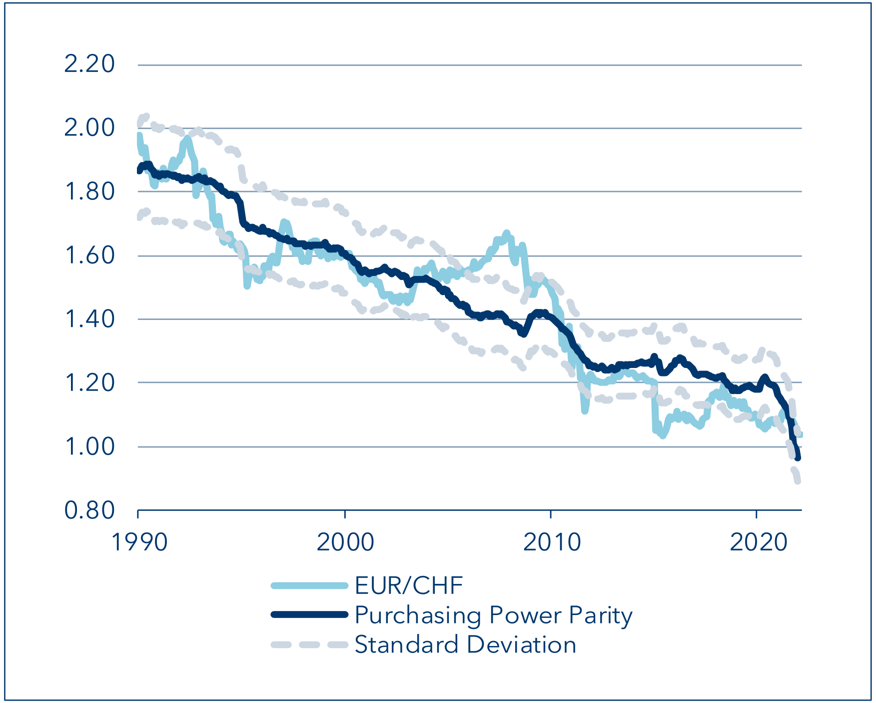
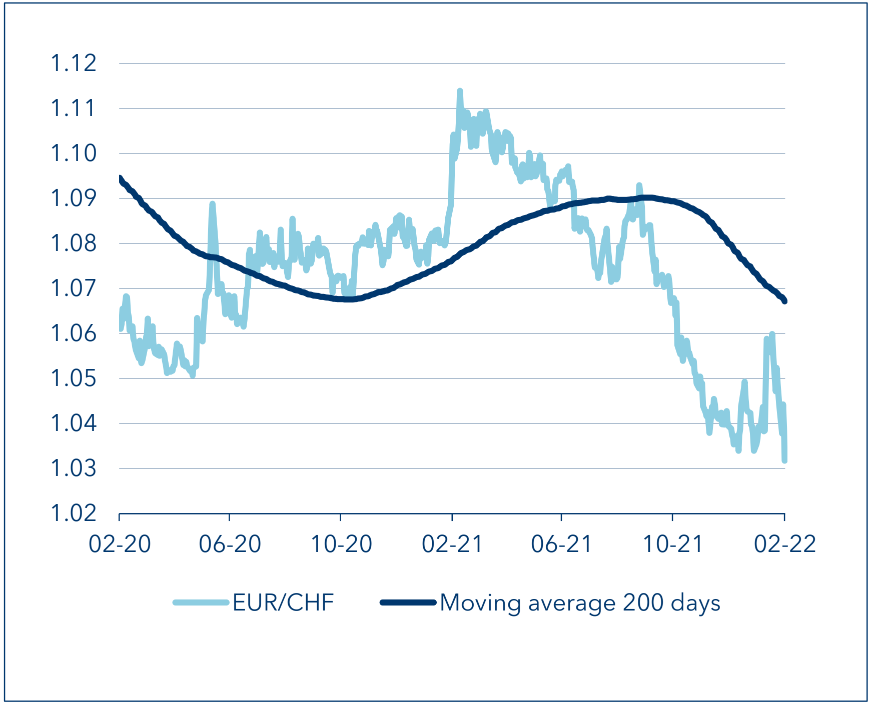


Technical view



Our View on **USD/CHF**

0.90 - 0.95

Expected range
for 3 to 6 months

- The Fed's monetary tightening supports the dollar
- Both currencies are in demand in times of high uncertainty

- Political uncertainties are mounting in the US ahead of the midterm elections in autumn
- High US twin deficit is a burden on the dollar

The two safe haven heavyweights

Two safe haven heavyweights meet in the currency pair USD/CHF. Both the Greenback and the franc are in demand at a time of heightened geopolitical uncertainty. The Fed's monetary-policy change, fears of persistently high inflation, material shortages, and geopolitical uncertainties over Ukraine are fueling not only stock-market volatility, but also investors' need for safety. Both the franc and the US dollar benefit. Looking forward to the coming weeks, we expect a sideways move of USD/CHF. For the time being, we do not expect the dollar to gain significantly against the franc. Fair exchange-rate levels against the dollar are shifting increasingly towards current levels according to purchasing power parity.

Our View on **USD/CHF**

0.90 - 0.95

Expected range
for 3 to 6 months

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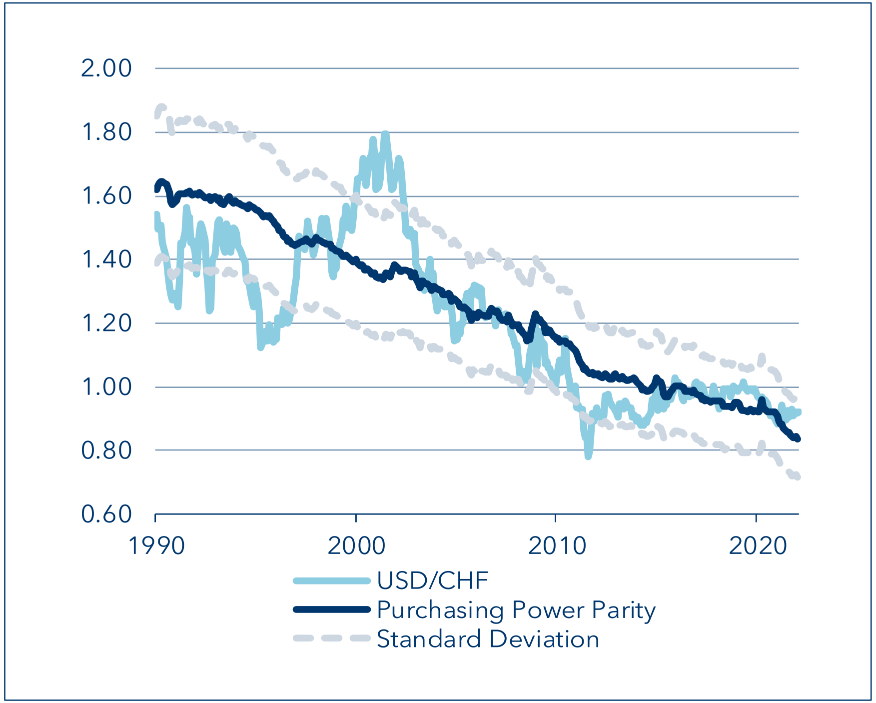

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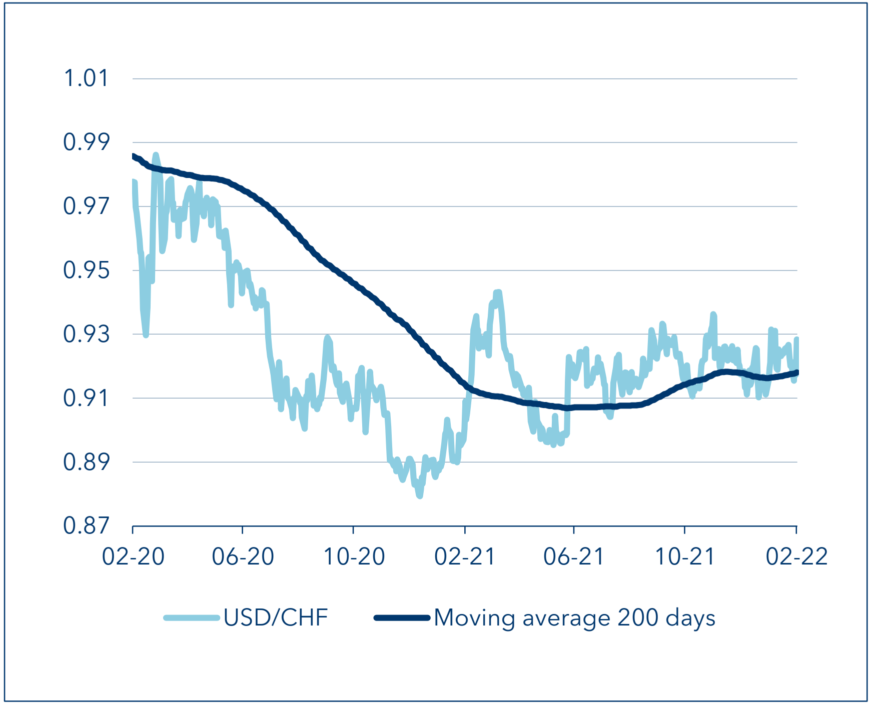

Our View on **GBP/USD**

1.33 - 1.38

Expected range
for 3 to 6 months

- The Bank of England's policy U-turn helps the pound
- The dollar is a safe haven when uncertainty rises
- Brexit reduces Britain's potential growth, which speaks against sharp pound strengthening

- Geopolitical uncertainties on Ukraine's eastern border lead to USD strength
- Pound remains under pressure due to a possible weaker economic development in Britain

BoE is pulling the lever

The Bank of England is not dithering. Policy makers are moving at a faster pace to tighten monetary policy. Not only has the key interest rate been raised twice since December, but the balance sheet is also being reduced. The reduction of holdings is one of the sharpest tools in monetary policy change. The Bank of England is suspending the re-investment of maturing government bonds it holds on its balance sheet. Corporate bonds worth over GBP 20 billion will be managed down to zero by the end of 2023. Further increases in interest rates will follow. The pound could benefit somewhat from tighter monetary policy. At the same time, however, there are concerns about the long-term negative economic consequences of Brexit and the greenback is in demand as a safe haven. Nevertheless, the technical view shows that the pound should regain at least some strength against the USD in the coming weeks.

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1.33 - 1.38

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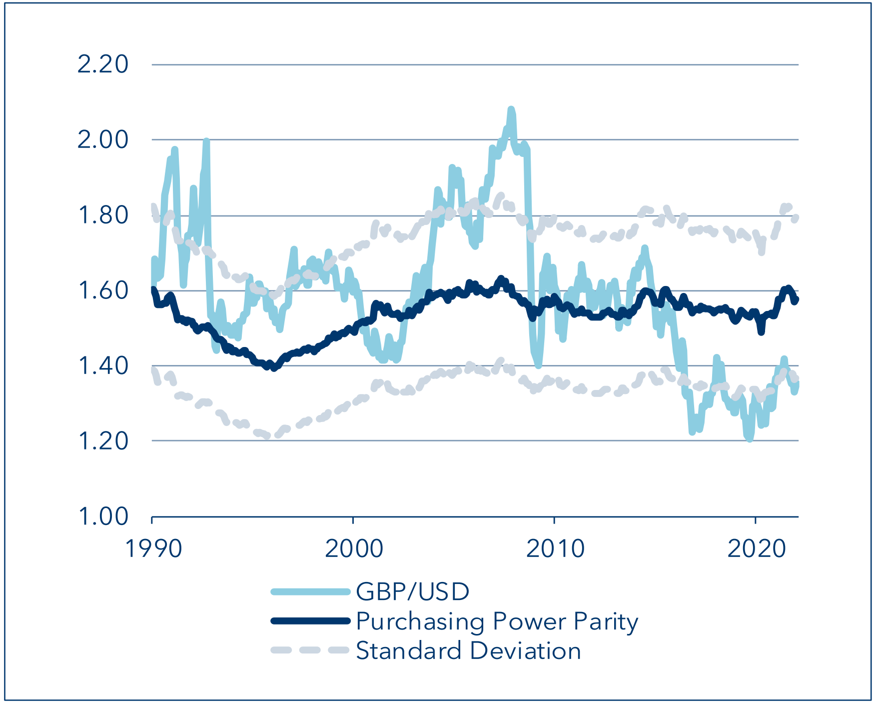

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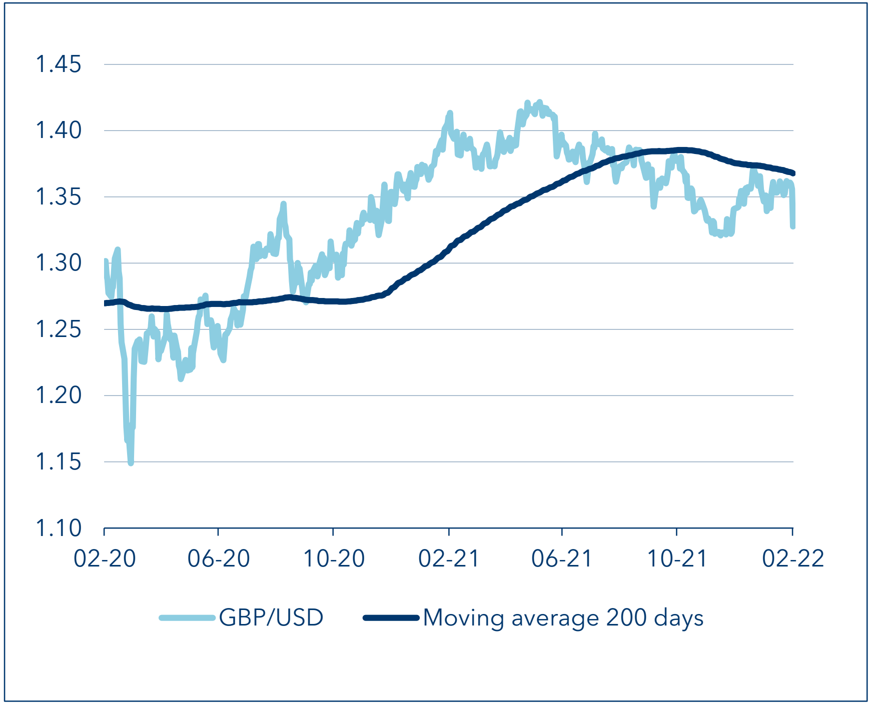

Our View on **EUR/SEK**

9.90 - 11.00

Expected range
for 3 to 6 months

- Riksbank waits with a change of monetary policy
- Current unfavourable environment for high-beta currencies such as SEK to remain

- If the Riksbank changes tack it could trigger SEK revaluations, which would run counter to the sideways movement we expect
- The ECB launches more and faster rate hikes than previously assumed

No upward move expected

The Swedish central bank (Riksbank) has phased out its bond purchasing programme at the end of 2021. However, it will reinvest bonds due, so the stock of bond remains the same for the time being. The Riksbank remains relaxed in terms of inflation. The question is whether it will soon be forced to adopt a different stance. The inflation rate have been staying above the inflation target of the Riskbank of 2%. A monetary policy shift could give the krona a boost against the euro. As a high-beta currency, the SEK benefits from a risk-on environment in times of global recovery. It is therefore not surprising that the current difficult geopolitical environment is not helping. However, the technical picture shows that the depreciation of the krona has gone too far in the short term. That is precisely why the krona should regain some strength.

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9.90 - 11.00

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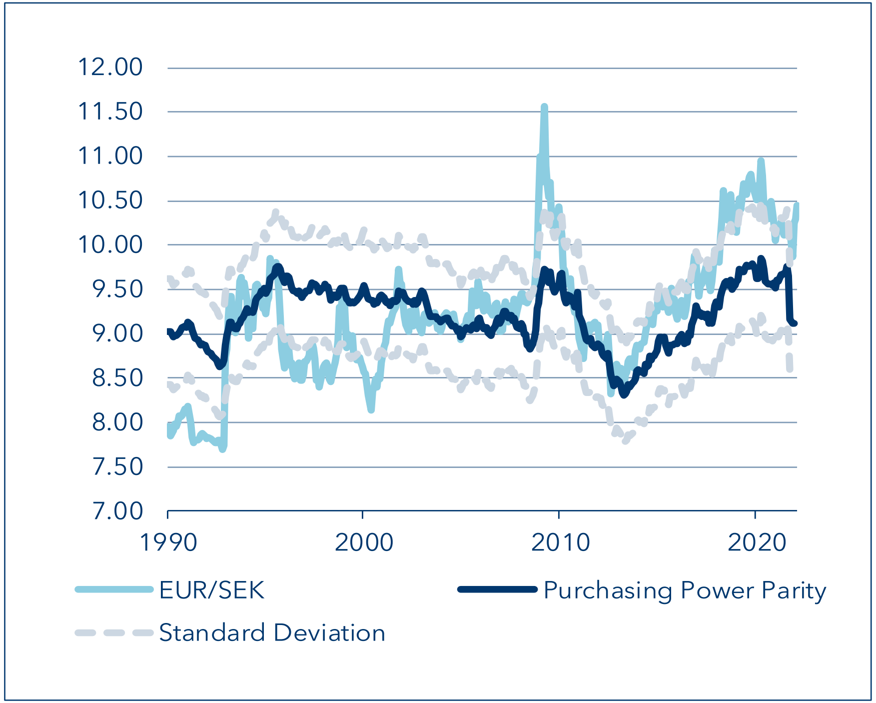

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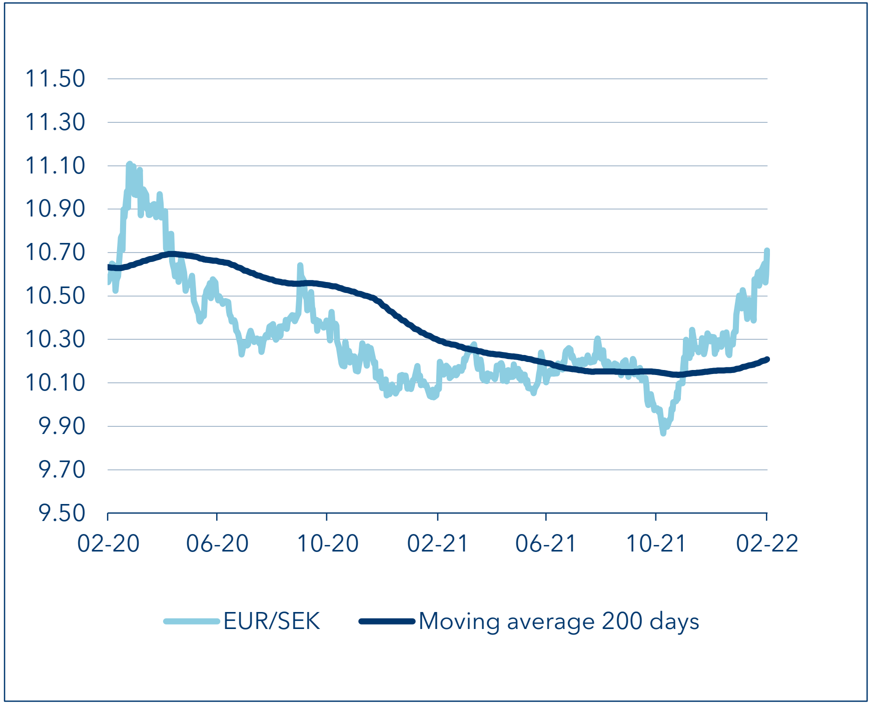

Authors and Disclaimer

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On Purchasing Power Parity: The Purchasing Power Parity (PPP) describes that a product costs the same in two countries as long as it can be traded without restrictions and the transaction costs are negligible. The relative PPP used here is based on producer price indices and assumes that the prices of the products change by the same amount, taking into account the exchange rate, but that the price levels may differ.

Important legal advice